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MEMORANDUM FOR THE SECRETARY OF STATE

SUBJECT: THE PALESTINE PROBLEM

For week ending 11 January 1949

Volume I

The Palestine problem again came to the forefront this week as Egypt and Israel agreed to a cease fire and direct armistice negotiations under auspices of the UN Mediator. The UN role, however, seemed once again to be determined by the actual pace of events in the field. Although the Security Council resumed discussion of the Indonesian question, amid sharp censure from Egypt and the Far Eastern nations for its failure to halt Dutch "aggression," no further action has as yet been taken. The SC "neutral" committee has submitted to the contending powers a proposal for settling the Berlin currency problem, but its chances for acceptance appear doubtful. Meanwhile in Washington, the US, Canada and the five Western Union powers continued negotiations toward an Atlantic Pact.

The Palestine problem. British determination to station troops in Aqaba and to alert naval elements in the Mediterranean reflects UK recognition of Arab military impotence and the necessity for some minimum containment of Israeli forces. In deference to the general desire not to impede the efforts of the UN Conciliation Commission, the UK has decided not to complain to the Security Council about Israel's shooting down five RAF planes. Nevertheless, the repercussions of the attack will probably exercise some temporary restraining influence on the Israelis. The presence of British troops near the Palestinian boundaries will confine PGI forces to Palestine itself. It will also reinforce the weakened bargaining position of the Arabs before the Conciliation Commission and improve the chances that the southern Negeb may be awarded to one or more of Britain's Arab allies. While Israel is threatening to bring the matter of British troop movements before the SC, claiming that these violate the Palestine truce, the execution of this threat would expose the Israelis to similar criticism. Thus it is doubtful whether Israel will follow through with this complaint and it is certain that the Council would do nothing about it, if made.

Because of their military reverses, the Arab states are more amenable now than ever before to discuss some adjustment of the Palestine dispute. While the Israelis are ready to talk, there is still danger that, flushed with victories and unchecked by the UN, they may still seek to extend their military gains in Palestine proper so as to obtain a better basis for

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bargaining. Thus, unless the realities of the situation are constantly held up to both parties through Anglo-American pressure, the chances of the Conciliation Commission's securing a settlement will be limited.

Arabs may seek deal with Italy over Tripolitania. **Recent indication that local Arab leaders desire to make a "deal" with the Italians over trusteeship terms should return of Tripolitania to Italy appear likely, may offer a means of reconciling the local population to this eventuality and of thus avoiding guerrilla warfare -- at present a main obstacle to such a solution. While Tripolitanian leaders, distrusting any Italian promises, threaten hostilities if the Italians return, some have stated that as soon as Tripolitania's award to Italy seems certain they wished to start bargaining with the Italians, using the threat of guerrilla warfare to force from them the best possible terms. These Arabs seek:-- (1) limits on Italian investment, immigration and landholding; (2) assurances Italy would give up her trusteeship at a definite future date; and (3) training of future Arab administrators. Only through some such bargain could the present Arab leaders apparently retain their hold over their followers, avert disorders and explain satisfactorily the delay in independence. Furthermore, unless a "deal" of this kind is made, the Tripolitani-ans might declare their own independence and appeal to the Arab states for aid in the event that Italian return appears likely.**

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US and UK trade unions plot course of world labor realignment. US and UK labor consultations in advance of the 17 January session of the World Federation of Trade Unions in Paris will determine the timing and manner of Anglo-American withdrawal from that organization. The CIO and the British Trades Union Congress, having already taken vigorous measures against Communists within their own ranks, are equally committed against continued participation in an organization which both now acknowledge to be Soviet-controlled. TUC and CIO leaders have, however, approached a formal break with the WFTU with caution, since they view as prerequisites for such withdrawal:-- (1) development of an acceptable international labor organization to replace the WFTU; (2) assurance of support from other non-Communist Western national labor organizations; and (3) documentation of "the record" proving Soviet-Communist control of the WFTU. The official recognition recently accorded to the IRL Trade Union Advisory Committee by the OEEC has fulfilled the first of these prerequisites. Pledges of support from Benelux and Scandinavian labor organizations and from French and Italian non-Communist labor have ensured that an Anglo-American withdrawal would be almost immediately followed by a general exodus of the Federation's Western elements. The Paris WFTU session would then provide the opportunity for a final documentation of the unremitting efforts of the USSR to use the WFTU as an instrument of its foreign policy objectives.

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China obstructs IRO efforts to evacuate Shanghai refugees. Plans of the International Refugee Organization for airlifting 6,000 of the 8,000 stateless White Russian, Polish and Baltic refugees stranded in the Shanghai sector have been halted by the imposition, by the Chinese Civil Aviation Authority, of exorbitant landing fees for the use of the Shanghai Civil Airport. The IRO, however, will continue to push its efforts to remove this group from the war area to a temporary haven in the Philippines. In its efforts to obtain a reevaluation of the Chinese Government's attitude, which apparently arose from failure of the Chinese national airlines (CNAC) to get a share in the airlifting contract, the IRO will be strongly supported by the US. Along with other IRO members, the US is conscious of the blow to Western prestige which would occur if the refugees were to be forcibly repatriated to Soviet-Satellite areas.

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New ECE Coal Committee role. Establishment by the ECE Coal Committee of a Utilization Working Party to study the long-term aspects of fuel utilization in Europe marks a step forward in the work of this Committee and foreshadows a continuing field of usefulness for ECE. The original function of the Coal Committee was to allocate between various European users the then short supply of coal. As the coal supply has become more satisfactory, the chief problem has changed to that of the most rational use of these resources. The Coal Committee's new attack on this problem reflects the desire of ECE member countries to make continuing use of the Committee as an instrument of economic cooperation. Although the ECE was originally set up to deal with reconstruction and rehabilitation problems, other ECE committees, too, are gradually shifting their emphasis to long-term European economic problems.

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European importers desire new approach to wheat agreement. In a recent meeting at The Hague, the UK, Sweden, Norway, France, Italy and the Netherlands have decided that at the International Wheat Conference on 25 January, they will seek a new wheat agreement instead of the draft rejected by the US Senate in 1948. Because of the increased world wheat supply, they favor lower prices with, in place of a fixed maximum price, a sliding scale declining ten points annually. They will argue for a three instead of a five year agreement, but expect to use their consent to a five-year extension as a bargaining point for lower prices.

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